

QUARTERMASTER  
CORPS MANUAL

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# PRETERMINATION PLANNING



ARMY SERVICE FORCES  
OFFICE OF THE QUARTERMASTER GENERAL

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Quartermaster Corps Manual QMC 21-6 is published for the information, guidance, and compliance of all concerned.

E. B. GREGORY  
Lieutenant General  
The Quartermaster General

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## NUMBERING SYSTEM OF QUARTERMASTER CORPS MANUALS

Each Manual is identified by the symbol of the originating agency, as given below, followed by a number indicating the numerical sequence of the manual: i.e., QMC-22-1 identifies the first manual prepared by Service Installations Division.

<u>BASIC PUBLICATION</u> <u>CONTROL SYMBOL</u>		<u>BASIC PUBLICATION</u> <u>CONTROL SYMBOL</u>	
Executive Office	QMC 11-	Organizational Planning and Control	QMC 19-
Fiscal Division	QMC 12-	Personnel Division	QMC 20-
Fuels and Lubricants	QMC 13-	Procurement Division	QMC 21-
General Administrative Services	QMC 14-	Service Installations	QMC 22-
International	QMC 15-	Storage and Distribution	QMC 23-
Memorial	QMC 16-	Subsistence	QMC 24-
Military Planning	QMC 17-	Headquarters, Quartermaster Inspection Service	QMC 25-
Military Training	QMC 18-	Market Center System	QMC 26-

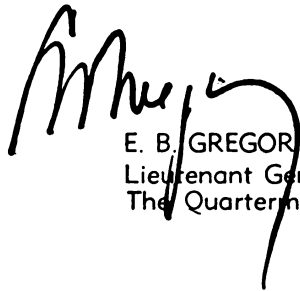
# **PRETERMINATION PLANNING**

*“1001 advance decisions”*

**Key to Fast, Fair and Final Settlement**

## FOREWORD

This manual is to be used as a guide in the development and preparation of pretermination settlement agreements and informal understandings with contractors. Its provisions will not in any instance be construed as superseding the Joint Termination Regulation or the Quartermaster Supplement, which are the final authorities for all termination action in the Quartermaster Corps.

A handwritten signature in black ink, appearing to read 'E. B. Gregory', is positioned above the printed name and title.

E. B. GREGORY  
Lieutenant General,  
The Quartermaster General

# Contents

- I. OBJECTIVES OF PROGRAM
- II. PRELIMINARY PREPARATION
- III. METHODS OF SELLING PRETERMINATION AGREEMENTS TO CONTRACTORS
- IV. ACCOUNTING ASPECTS OF PRETERMINATION AGREEMENTS
- V. INVENTORY DISPOSAL ASPECTS OF PRETERMINATION AGREEMENTS
- VI. LEGAL ASPECTS OF PRETERMINATION AGREEMENTS
- VII. APPROVAL OF AGREEMENTS
- VIII. PREPARATION OF FILES
- IX. GENERAL INSTRUCTIONS
- X. UNIFORM PRETERMINATION AGREEMENTS COVERING MANY CONTRACTS FOR SAME ITEM
- XI. APPENDIX

# AUTHORITY

## JTR 221 — RESPONSIBILITY FOR ADVANCE PREPARATIONS

**221.1** Value of advance preparations.—(1) Advance preparations for termination lead to prompt and equitable settlement of terminated contracts, and are therefore designed to facilitate the prompt transition from terminated war production to other war production or to civilian production upon the partial or final cessation of hostilities. It is vital to the present war effort and the future economy of the country that this transition be accomplished with the greatest possible speed.

(2) Settlements of terminated war contracts involve many decisions and actions of war contractors and the Government. Diligent efforts must be made, before actual terminations, to agree on both the financial and property disposition aspects of the termination settlement.

(3) Such advance preparations will speed the diversion of personnel, inventory and facilities to other war production or to civilian production, and will facilitate interim financing, plant clearance, and prompt settlement of termination claims, with resulting avoidance of unemployment.

**221.2** Types of advance preparations.—The three types of advance preparations are:

(1) Discussions with contractors of termination procedures and problems, and the preparation by contractors of internal termination plans and procedures. (See JTR 222.)

(2) Tentative understandings or informal arrangements embodied in memoranda not binding upon the Government or the contractor. (See JTR 223, 225 and 226.)

(3) Pretermination settlement agreements which are formal binding agreements covering elements of the termination settlement. (See JTR 224, 225, 226 and 227.)

**221.3** Scope of advance preparations.—Except in those specific cases where such activity would interfere with production, all services and bureaus are responsible for conducting advance preparations to the greatest extent practicable. Discussions with contractors should lead to the preparation of a written termination plan by each contractor, and to informal arrangements covering elements of termination settlements. Thereafter, to the greatest extent practicable, advance preparations should be extended to the negotiation of pretermination settlement agreements.

(Excerpt from JTR, 20 April 1945)

# I. OBJECTIVES OF THE PROGRAM

**1. Industry has Concentrated on War Production.** In the prosecution of World War II, the Quartermaster Corps has made a splendid record in developing and maintaining a procurement program of vast proportions. In large measure, the success of this program has been dependent upon the technical knowledge, the productive capacity, the initiative and upon the complete cooperation of industry in the war effort. It has been necessary for many industries to convert their normal products, and in some cases their basic production processes from civilian requirements to war time necessities. This conversion was made with speed and efficiency and huge production schedules have been met with regularity. So intense has been the effort to meet these production schedules that industry has not had the opportunity to study thoroughly its termination problems and provide necessary solutions.

**2. Obligations of Quartermaster Corps to Provide Plans.** It is evident that the time has now arrived when it is imperative that plans be made for orderly termination and reconversion. The Contract Settlement Act of 1944 has provided the necessary broad authority for such action. It is the duty of the Quartermaster Corps to provide specific plans and methods for minimizing the disarrangement which may attend terminations and for assisting contractors in their efforts to reconvert quickly to peace-time production. Such planning, if carried out successfully, will enable the Quartermaster Corps to continue through the termination period the excellent record which it has made in building up and maintaining its procurement program.

**3. Pretermination Agreements Offer Best Solution.** The most expedient solution to termination problems is the development of pretermination agreements and informal understandings with contractors. The contractors who are covered by such agreements are in a position to know what their status will be after termination. They are in a position to complete their entire settlement and plant clearance processes within a minimum length of time, as all important decisions have been made and approved by the Government in advance, and can be put into effect after brief review with no unnecessary delays. With binding pretermination agreements on which to base their plans, contractors are in a position to make detailed plans for reconversion.

**4. Purpose of This Manual.** The purpose of this manual is to outline in detail a program for obtaining pretermination agreements with contractors, informal or binding, which will cover all phases of the settlements. The objectives of the program outlined herein may be more specifically defined as follows:

- a. To increase to the maximum the number of executed pretermination settlement agreements, or informal understandings.
- b. To enlarge the scope of final decisions made by each agreement.
- c. To establish patterns for frequently recurring types of agreements.
- d. To improve the quality and value of the agreements.



- e. To suggest and prescribe procedures to be followed and records to be maintained in connection with pretermination settlement agreement and informal understandings.
- f. To formulate policies and plans relative to attaining the foregoing objectives.

**5. Opportunity to Develop Broad Program.** This program so far is new and flexible. Basic policies have been established, but further experience is required in order that the full potentialities of the program can be developed. The program presents an opportunity and a challenge to Quartermaster representatives in the field installations. By properly exploiting this opportunity the Quartermaster Corps can handle a large part of its termination load in an orderly and systematic manner before terminations occur. Then, when final victory is achieved and the need for production diminishes, its vast procurement program, with all of its ramifications, will begin to unwind itself in accordance with a carefully prearranged plan.

## II. PRELIMINARY PREPARATIONS

**1. Introductory Statement.** Success in obtaining pretermination agreements with contractors depends largely on the preliminary preparations made in the depot. Such preparations begin with selection of the group of contracts with which to work and extend to the collection and assimilation of all available data regarding the particular contractor. When the contracting officer's representative sits down for his first interview with the contractor he should be armed with all the information available from the depot records and customary reference sources.

**2. Preliminary Research.** Prior to initiating action for obtaining pretermination agreements, a thorough study of the important items procured by the depot should be made by the Demobilization Planning Section of the Contract Termination Branch. The purpose of this study is to determine whether the item in question will present numerous or difficult termination problems, to sharply define these problems, and to recommend solutions with a view to arriving at a uniform pretermination agreement which can be offered to all contractors producing the item.

**3. Scope of Study.** To accomplish the purposes stated above, the study should be broad in scope and in addition to all other pertinent matters, should contain reference to the following wherever applicable:

- a. The number of prime and subcontractors engaged in producing the item.
- b. The quantity and dollar value of the Government's total commitment for the item on all contracts.



- c. A general description of the process of manufacturer showing the respective stages performed by the prime contractor and the subcontractor.
- d. Recommended stop-work points.
- e. Information relative to termination inventories, including:
  - (1) Quantity and value of raw materials which may be on hand.
  - (2) Quantity and condition of work in process.
  - (3) Retention offers for raw materials and work in process which would be acceptable to the Government.
- f. Recommended disposition of Government-furnished materials and Government-owned facilities on hand at termination.
- g. Bid and cost data and cost studies for the particular contractors making the item.
- h. Problems in connection with settlement of sub-contractors' claims.
- i. Problems in connection with common items.
- j. Problems involving WPB, OPA and other Government regulations.
- k. Unusual problems of a legal nature which may be foreseen and solved in advance.

**4. Technical Problems and Questions Involving Policy.** The function of the Demobilization Planning Section in connection with pretermination planning should be clearly understood. This Section should plan the research program in connection with a particular item and should be responsible for guiding its development. As the study unfolds, and problems of a technical nature are developed, they should be assigned to other units of the depot which are technically qualified to handle them. The Demobilization Planning Section should define the particular problem as concisely as possible, and should work with the operating unit and review the results obtained to the extent necessary to insure the most practicable solution. It should also coordinate the work of other units when necessary. Beyond this, the operational aspects should be left to the operating unit. It is possible that in making such studies, the Demobilization Planning Section will discover problems which can be solved only after thorough discussion with industry. In that event, one or more contractors should be visited and solutions obtained. It is also possible that problems touching upon fundamental procurement and disposal policies, or problems so broad in nature as to require policy making decisions, may be encountered. In such cases, the Demobilization Planning Section should withhold any specific recommendations as to pretermination agreements until the recommended solutions have been approved by the proper authorities.

**5. Report and Recommendations.** After completion of the study, the conclusions should be drawn up in report form. This report will review the extent of the study and enumerate all of the problems which have been disclosed, with the recommended solutions. It will be as brief as possible, but complete. It is important to remember, however, that study of the item does not cease with submission of the report. Conditions may change materially subsequent to the submission of the initial report. It is desirable that each new agreement and each renewal or modification of an existing agreement be made only with a full knowledge of current conditions. Therefore, each study and report made by the Demobilization Planning Section should not be considered as a

finished assignment, but as the basis of a continuing study to be kept up to date as long as the items have an important place in the Quartermaster procurement program.

**6. Selecting Individual Contractors.** Having completed a general study of the item, preparations should be made to negotiate agreements with individual contractors. Generally speaking, contractors who have good production records and who have cooperated to the fullest in the war effort are the best prospects. Such contractors are likely to be receptive to new developments and improvements and, in addition, are apt to have Government contracts on their books continuously until final victory. Agreements with these contractors pay the biggest dividends and set a good example for others in the industry.

**7. Further Preparations.** Having decided on the contractor with whom to open negotiations, the negotiator should assemble the following information in addition to that developed in the Demobilization Planning Section.

- a. Copies of all current contracts and amendments thereto.
- b. Record of contractor's performance, including current production and delivery status.
- c. Record of Government financing.
- d. Credit information on contractor.
- e. Records of previous terminations with the contractor.
- f. Renegotiation data, if available.
- g. Name of individual to be contacted.

The accumulated data should be developed in such a manner that the negotiator calling on the contractor will be armed with sufficient information to discuss intelligently the benefits of a pretermination settlement agreement as related to the contractor's particular problems. If practicable, the negotiator should present a plan including all relevant facts pertaining to current contracts. It should include stop-work points and should be based on costs and other information assembled by the Demobilization Planning Section. Very few decisions would remain for the contractor to make, and these would be precisely defined by the negotiator. When these preparations have been completed, the negotiator is ready to present his case to the contractor on an informed basis rather than relying on generalities in its presentation.

### III. METHODS OF SELLING PRETERMINATION AGREEMENTS TO CONTRACTORS

**I. General Basis of Approach.** Experience has shown that no high pressure salesmanship is necessary in convincing war contractors of the importance of pretermination planning. As a general rule, they are sufficiently aware of the fact that termination of their war contracts would have serious repercussions on their businesses. Where it is learned that a contractor has given little or no thought to these problems, they should be explained to him in a suitably forceful manner, covering all important points including stoppage of production, loss of labor, unnecessary delay in converting to other production, and loss of profit for the period.

It will be necessary, however, to convince the contractor that a pretermination settlement agreement is the best solution to his termination problem. The principal advantages to him of such an agreement may be explained as follows:

a. The time necessary for settlement is greatly reduced and if the contractor will agree to continue producing the item for his own account, no stoppage at all is necessary other than a brief period for taking inventory which is usually necessary in cases where any part of the contractor's manufacturing cost is to be paid by the Government.

b. Conversion to another war contract or to production for civilian requirements can be accomplished much more quickly and easily.

c. The time saved in the termination and reconversion process will result in more profitable operations for the period.

d. The contractor can keep his labor force intact and on the job—he takes no chance of losing his experienced men because of a lay-off.

e. The most convincing argument for pretermination agreements is that by making in advance the decisions which are necessary when termination occurs, the contractor avoids a complete shut-down of his operations awaiting settlement procedures. The effect of continuing overhead and maintenance expenses during such a shut-down period cannot be over-emphasized in impressing the contractor with the importance of a pretermination agreement.

f. Finally, it should always be remembered that the representative of the contracting officer calling on the contractor has a product to sell—"a pretermination agreement"—and every possible sales appeal must be used to gain acceptance of the idea without using any coercive methods, pressures or promises. The War Department believes the product is a good one for the Government and the contractor. The Government has provided fair rules and procedures to make possible the use of these agreements. The negotiator himself should be thoroughly "sold" on the product by knowing a great deal about it. The job is to get the contractor to know equally as much about it. The extent to which this can be done will measure the acceptance of pretermination agreements on the part of the industry. The pretermination program is in the developmental stage but it is not entirely new. Considerable progress has been made since July 1944 and at present over 5,000 contracts are being

studied in the War Department for the purpose of establishing binding pretermination agreements. Thousands of informal understandings are currently in effect. Pretermination settlement agreements already have "contractor acceptance"—they need only to be brought to the attention of many more contractors and developed on a broader scale.

**2. Types of Agreements or Understandings.** The different types of pretermination agreements and informal understandings which are available to contractors are described in detail in the section of this manual entitled "Legal Aspects of Pretermination Agreements." This section should be carefully studied by the negotiator prior to visiting a contractor so that he will be in a position to present the different alternatives to the contractor and to discuss intelligently any detail of this subject on which the contractor may have questions.

**3. Decisions on All Points Not Necessary.** It is a mistake to assume that decisions must be reached on **all** termination problems before a pretermination settlement agreement can be entered into. The purpose of pretermination agreements is to make as many decisions as possible in advance of termination. If only one important decision can be reached, that much at least should be formally agreed upon, and as further decisions are reached, the agreement can be expanded to cover them. For instance, one contractor might be willing to agree in advance on the method of determining factory overhead, general and administrative expense and profit. Another might be willing to make acceptable firm offers for raw materials and work-in-process on hand at termination. And still another might be willing to make no charge if given notice a specified period of time in advance of termination. In each case, an agreement should be entered into covering the decisions made. Though decisions reached later should be added, agreements on important points should not be held up pending such further decisions.

#### **4. Preparation of the Agreement.**

a. **By the Contractor.** After the case has been presented to the contractor and he has decided to enter into an agreement, he should be requested to prepare and submit a proposal to the Government. All or many of the points to be covered in the agreement will have been covered in detail in preliminary discussions and many suggestions will have been made by the negotiator which the contractor may adopt in whole or in part. In preparing his proposal, the negotiator may assist the contractor by leaving with him a summary of points which should be covered, including all important problems pointed out in the study made by Demobilization Planning Section plus any additional ones which may have been developed in the discussion with the contractor.

In order to conserve time for Government and contractor, a time schedule should be established and a promise obtained from the contractor as to when the required data will be furnished. Although the negotiator, and the accountant, if present, may explain in detail the scope of the study which should be made and the method of preparing the proposal, the burden of establishing the costs should be placed with the contractor.

b. **By the Government.** Upon submission, the contractor's proposal should be reviewed in substantially the same manner as a proposal submitted after termination, with due regard, however, for factors peculiar to pretermination. The spirit of the Contract Settlement Act should be observed in the conduct of the review; and the review should be no more strict or liberal than the review of a proposal submitted after termination. The sections of this manual which deal with the accounting

and inventory disposal aspects of pretermination should be used as guides for the review. After the proposal has been reviewed and final negotiation has been completed, the proposed pretermination agreement should be reduced to writing and submitted for approval to the Depot Settlement Review Board and, if necessary, to the Depot Property Disposal Board and higher authority. When all required approval has been obtained, the agreement should be submitted to the contractor for signature.

## IV. ACCOUNTING ASPECTS OF PRETERMINATION AGREEMENTS

**1. *Introductory Statement.*** The accountant's responsibility with respect to pretermination agreements is primarily concerned with the reasonableness of costs claimed by the contractor. Material, labor and overhead costs must be accumulated to the various production stages or stop-work points and furnished to the negotiator as a guide in developing the agreements.

Wherever practicable and in order to keep the accounting work to a minimum, details of cost should be submitted by the contractor. An office review, based upon the available data in Depot files, should be made by the accountant to determine the general credibility of such costs. Where costs submitted appear out of line in the judgment of the reviewer, further information should be obtained by a visit to the contractor's plant and an examination of the contractor's records.

Where practicable, the accountant's working papers and report supporting each pretermination agreement should contain the information described in the following paragraphs.

### **2. *General Information.***

- a. A description of the item manufactured.
- b. The material components entering into the end item and the quantity of each required for one unit. Where there is a large number of components entering into the end item so that it would be impracticable to list the bill of materials in its entirety, only the major components need be submitted.
- c. A general description of the production cycle and the manufacturing processes involved. (A description of the production cycle in narrative form indicating the various stages of production and the operations involved will serve as a guide to the negotiator in determining the complexity of the item manufactured and the logical stop-work points.)
- d. The stop-work or inventory points which have been agreed to by the negotiator and the contractor as the most logical points at which to stop production and count the inventory at termination.
- e. Where practicable, the potential maximum number of units at each stage of production in the event of termination at various intervals of contract completion. In order to obtain this figure, it will be necessary to know the lead time and the duration of the production cycle. This information will

furnish the negotiator with the maximum amount the Government may be called upon to pay to the contractor upon termination at certain fixed dates.

f. A statement as to the manner in which inventory at the various inventory points will be taken upon termination. In those cases where contractor's inventory records are thoroughly reliable the inventory at the various production points may be obtained from such records, subject to a selective test verification of such records at time of termination. In other cases, the accountant should recommend the taking of a physical inventory, in which a representative of the Government may participate if deemed necessary.

**3. Unit Costs.** The accountant must prepare a schedule showing the unit cost ascribed to each stop-work stage and to the completed item for:

- a. Material
- b. Labor
- c. Overhead
- d. General and Administrative Expenses
- e. Other Costs
- f. Profit
- g. Contract price for completed items

The unit costs at each stop-work stage must be separate and also cumulative so as to indicate the total amount of costs at each particular stage of operation. This will be useful to the negotiator as basic data in determining equitable retention values at the various stages. A type of cost summary covering the manufacture of gloves is included in the appendix as a guide.

**4. Basis of Costs.** The accountant must include in his pretermination report a statement setting forth the basis upon which costs were established and the general reliability of the contractor's records. The extent of the accountant's verification of the various costs must be specifically described. Insofar as the cost of material is concerned, test verification of vendors invoices will be deemed sufficient. With respect to labor, overhead, and G & A Expense, the various "pools" of these expenses must be examined for inadmissibles. The basis for allocating overhead and G & A must be set forth. If yardstick or cost studies of reasonably recent dates contain the required information they should be used wherever practicable. The necessity of visiting the contractor's plant and examining his records will thus be eliminated.

**5. Combined Costs.** In establishing net costs at stop-work stages, it may be impractical to set costs at each stage. Under these circumstances, costs over several stages may be combined and averaged provided the production cycle is constant. Only when absolutely necessary should one unit price figure be established covering all stages of work-in-process.

**6. Procedures.** The procedures prescribed in Part III, Section I, QM Manual 21-3, "Standard Contract Termination Organization and Procedures," April 1945, should be followed by the accountant in preparing and submitting his comments.

# V. INVENTORY DISPOSAL ASPECTS OF PRETERMINATION AGREEMENTS

**1. *Introductory Statement.*** In connection with the preparation and review of pretermination settlement agreements and informal understandings, the Inventory Disposal Section has two primary functions—the approval of retention or disposal offers and determinations as to scrapping, storing, packing and marking. These primary functions, and other secondary functions necessary to the proper performance thereof, are discussed in the following paragraphs.

**2. *Disposition of Termination Inventory.*** Delay in final settlement is prolonged if termination occurs without a definite decision having been made by the Government and the contractor as to which materials will be retained by the contractor and which will be disposed of otherwise. It is desirable that the contractor be induced to make reasonable retention offers for materials which the Government will not require. Special effort should be made to persuade the contractor to retain for processing on his own account the work-in-process which is of little or no value to persons other than the contractor. Such retention relieves the Government of a difficult disposal problem and helps the contractor to avoid a complete shut-down.

Consideration of the factors listed below should prove of assistance in arriving at the reasonableness of retention offers.

**a. *With respect to the item being terminated:***

(1) Is the item a regularly saleable commercial item?

(a) Is it exactly the same as commercial item?

(b) Does it vary slightly from the usual civilian counterpart, in cost, in quality of component materials, or in design or color so as to affect its utility or aesthetic appeal?

(c) Is the work-in-process such that it can be converted so as to reduce production cost, increase utility or aesthetic appeal, either by changing the color, finish, or eliminating production operations?

(d) Can the work-in-process be diverted to a different end item of more commercial value? What item (if not confidential) and cost to produce the item?

(e) If tariff sizes are involved, is the work-in-process tariff similar to a civilian tariff?

(f) Will it be impracticable to alter the work-in-process, compelling the contractor to sell the item in commercial channels at a discount in order to compete with more commercially desirable items of the same type?

(2) Quantity of items on contract.

(3) Quantity of items on all outstanding contracts of Quartermaster and other Services.

(4) Estimated total quantity of items that will be available for sale at time of termination.

(5) Estimated quantity the contractor will have available for sale.

(6) Ability of public to consume outstanding quantity.



- (7) Scarcity of item in civilian channels.
  - (a) Has civilian production of item been prohibited or restricted by WPB regulations?
  - (b) Extent civilian production of item has been restricted by shortage of materials.
- (8) Estimated price at which contractors will be able to sell completed items.
- (9) Cost to contractor of completing work-in-process.

**b. With respect to the Contractor:**

- (1) Does the contractor produce the item in his normal business?
- (2) Is the item of the same quality and price range of contractor's normal business?
- (3) Relation between contractor's normal business volume and quantity of item that will result from completion of work-in-process.
- (4) Is contractor a completely integrated company?
- (5) Contractor's production cycle.
- (6) Any special value of material or work-in-process to the particular contractor.
- (7) Problems of the contractor in making use of the inventory.

**c. With respect to the inventory of component materials:**

- (1) Are the raw materials of the same type used by contractors in normal business?
- (2) Does he use the same quality or a poorer or better quality?
- (3) Can the raw materials, purchased parts, and supplies be converted to contractor's normal production and at what cost?
- (4) Are the raw materials scarce?
- (5) For how long a period after termination will the materials be scarce?
- (6) Will materials be readily saleable to third parties at the time of termination?
- (7) Has provision been made to compensate the Government for GFM included in work-in-process retained by contractor?

**d. With respect to other retention offers:**

- (1) Is the offer equal or better than retention offers of other contractors for similar work-in-process or material? If the offer is lower, reason therefore.
- (2) Is the offer equal or better than previous retention offers for this same item made by this contractor?
- (3) Is contractor's offer equal to estimated sales price of materials at time of termination?
- (4) Are contractor's offers consistent. If offers are not consistent, reasons should be given in the Inventory Disposal Report.
- (5) Is offer equal to or higher than Government could obtain if materials are sold to third parties at time of termination?
- (6) Comparison of offer with offers under negotiation with other contractors.

**3. Sources of Information.** A considerable amount of the information required to determine the acceptability of retention offers is available in the procuring depot. The contracting officer, civilian procurement specialist, and buyers in the Commodity Section should be consulted on all retention offers. These people are in a position to offer suggestions as to reasonableness of an offer, the item's marketability as a commercial item, its probable demand at the time of mass terminations, and to verify the statements and contentions of the contractor as to values. The Engineering Section and Laboratory should be utilized to determine what changes the contractor could make in the work-in-process to convert the item to a more commercially acceptable product. The Cost and Price Analysis Branch can furnish helpful information with respect to contractor's cost of completing the item. Inventory disposal files will contain an experience record of past sales of many of the materials covered by the pretermination offers. The Inventory Disposal Section should maintain comparative records of all pretermination offers for similar materials. In this way it will be possible to develop "market values" for predetermined retentions of materials. Since pretermination agreements cover future events which might not occur, it is not believed advisable to communicate with mercantile establishments to determine what they would pay for the completed item if and when a termination occurs. This action is objectionable in that it might leave the impression (regardless of how explicit the Inventory Disposal Specialist is in explaining the situation) that the Quartermaster Corps is selling completed items. Since the contractor is the one who will have the products to sell, it is believed that any testing of markets with civilian wholesale or retail organizations should be conducted by him. This information may then be obtained from the contractor if he is willing to divulge it.

**4. Other Factors.** After studying all information available with respect to value of the inventory, consideration should be given to:

- a. The benefit of the agreement as an aid to plant clearance and further war production or re-conversion to peacetime production.
- b. The retention offer for the work-in-process and the sales price of the material if the contractor does not retain it.
- c. Effect upon future pretermination agreements with other contractors if a near-scrap offer is accepted from one contractor.
- d. Keeping all retention offers for similar items within a specific price range.
- e. The overall retention offers of contractor.

**5. Disposing of Work-in-Process.** Particular effort should be made to dispose in a pre-termination agreement of work-in-process and materials which are of no use to other manufacturers except as scrap. However, it should be borne in mind that acceptance of unreasonably low offers will affect offers obtainable for the same work-in-process from other contractors. In determining the reasonableness of offers for work-in-process, one should be guided more by the value of the work-in-process to the contractor than the amount the Government would obtain for the material, should the contractor refuse to obtain it. Offers for materials and work-in-process which are readily saleable to third parties should only be accepted when the offers are equal to or greater than what is estimated could be obtained at the time of termination and when the offers bear a high percentage relation to cost, as these materials may be disposed of at the time of termination when their value may be determined with more certainty.

**6. Working Papers.** A work sheet covering each pretermination agreement containing disposal offers should be maintained in the Inventory Disposal Section. Each item covered by the pretermination agreement should be completely described as required for storage or sale so that a person reviewing the file and the Inventory Disposal specialists in charge of the case will have before them the exact character and quality of the material being dealt with. This is required even though in the pretermination agreement it may be necessary only to describe the property sufficiently to identify it with the contract. After describing each item, all relevant information, factors considered, reasoning, as well as any reasons given by the contractor for his particular offers, and the basis for accepting or rejecting such offers or group of offers, should be set forth on the work sheets. When retention offers are submitted to Review Boards for approval, the working papers will be included in the papers supporting the recommendations of the contracting officer.

**7. Report.** In addition to maintaining working papers, a "Report of Inventory Disposal under Pretermination Agreement" will be prepared for the signature of the officer-in-charge of the Inventory Disposal Section and submitted to the contracting officer with respect to each pretermination agreement involving retention offers. This report will summarize the work sheet material and set forth the reasons for accepting or rejecting the offers of the contractor with respect to each item or group of items.

**8. Scrapping, Storing, Packing, and Marking.** It is not the purpose of this Manual to discuss technical questions pertaining to the disposition of termination inventory which is not retained by the contractor or sold to third parties. Suffice it to say that advance decisions can be made as to which items may be scrapped, which should be stored, and proper packing and marking of items which are to be stored. These decisions are of the utmost importance in pretermination planning and should be incorporated in pretermination agreements whenever possible.

## VI. LEGAL ASPECTS OF PRETERMINATION AGREEMENTS

**1. Introduction.** Ordinarily, it will be desirable and advisable to consult the Depot Legal Branch on any legal questions which may arise during advance preparations for terminations and on the drafting of pretermination settlement agreements. However, the negotiator, accountant and property disposal specialist will find the effectiveness of their work increased if they are armed with an understanding of some of the legal principles underlying the documents containing the decisions made in such planning. It is the mission of this section to furnish as much such information as can be explained in a non-technical manner.

Generally, the decisions and determinations made and expressed in advance of termination in the informal memorandum and pretermination settlement agreement are essentially the same as those made normally after termination either by negotiation by the parties or unilaterally by the con-

tracting officer. However, in planning post termination action in advance of termination, the legal factors involved may not necessarily coincide with those existing after termination. Each arrangement, therefore, should be carefully scrutinized so that the Government's interest is legally protected.

For the purposes of discussion here, the documents embodying pretermination arrangements are divided into the following four categories: (1) The informal memorandum, which is not binding and is subject to change by either party at any time; (2) The no-charge pretermination settlement agreement, under which the contractor agrees that he will make no charge if he is given advance notice a specified period of time before the effective date of termination. An agreement which provides that the contractor will waive all termination charges except a few minor ones is not, technically, a "no-charge" (i.e., "no cost") agreement, because the contractor will make some charge, however small it may be. Nevertheless, there is a tendency among contract termination personnel to think of and refer to this type of agreement as a "no charge" or "no cost" agreement. For that reason, this type of agreement will be discussed hereinafter under the paragraph entitled "No-Charge Pretermination Settlement Agreements." (3) The pretermination settlement agreement determining some elements of a termination settlement. It represents a binding understanding upon only some of the subjects, but not all, which enter into a termination settlement after notice of termination. (4) The pretermination settlement agreement determining all elements of fair compensation. It represents what the businessman calls a "complete deal."

**2. Informal Memoranda.** Frequently discussions with the contractor will lead to understandings which the parties do not wish to reduce to binding agreements because of the possible effect of unforeseeable or uncontrollable future events. It may be desirable in such instances to agree tentatively on the action to be taken after termination. For that purpose a tentative memorandum, not binding, and subject to change by either party may be executed. The subjects which may be covered by such arrangements encompass the entire field of the termination settlement. They include any procedural question, such as the method of taking inventory, the descriptions to be given in the contractor's schedules of specific types of property, and the determination of the normal stop work points, as well as any substantive matter such as the elements of costs for which the contractor is to receive compensation and the methods or bases for computing the amount due for each such element. They may cover the complete termination settlement, as for example where they provide that upon termination the contractor waives all claims and demands for fair compensation against the Government and will execute a complete release in favor of the Government (See Subsection on "No-Charge Pretermination Settlement Agreements").

It should be noted that once an informal memorandum is executed, the parties are not foreclosed from negotiating other informal memoranda and pretermination settlement agreements. Thus, after the parties have executed one such memorandum, they may later reach an understanding on other subjects and thereupon may execute another memorandum. Nor are they foreclosed from executing simultaneously an informal memorandum and a pretermination settlement agreement. Where the parties can make binding agreements as to some elements of a settlement but not all, they may enter into a binding pretermination settlement agreement upon those subjects susceptible to such treatment and a non-binding informal memorandum on the others.

The document incorporating such understanding should, as its name indicates, be very informal, avoiding the style and form of binding agreements. It should, however, take into account, by adequate provisions, all of the legal factors involved in the decisions which are the subject of the informal arrangements. Lack of care in such respect may necessitate a renegotiation of the arrangement after termination.

**3. No-Charge Pretermination Settlement Agreements.** The no-charge pretermination settlement agreement provides a valuable tool for the negotiator seeking to make pretermination settlement agreements determining the entire matter of fair compensation.

JTR 224.4 (3) authorizes only that type of agreement which provides that the contractor will make no charge if he is given advance notice a specified period of time before the effective date of termination. However, the Government cannot bind itself to give such notice. The purpose of such advance notice is to permit the contractor to work out his costs or probable losses so that on the effective date of termination, he will have no claim for fair compensation. Notice should not be specified merely in an attempt to comply formally with an administrative requirement.

Where the contractor desires time in advance of termination to work out his costs or losses so that he will not have a claim for fair compensation when termination day arrives, or where he wants to make an agreement providing for payment of certain elements of his costs and for advance notice to work out the others, pretermination settlement agreements may be utilized. However, such agreements should not authorize production for the Government's account on the terminated portion of the contract during the notice period.

Such an agreement, however, should not be negotiated with the contractor who states that upon termination without advance notice he will have no termination charges and therefore no claim for fair compensation. In such a case, the necessity for advance notice does not exist since there are no costs for the contractor to work out by additional processing. Likewise, if the contractor states that he will have termination charges only as to certain minor elements of his claim for fair compensation and desires an agreement which will provide specifically for the payment of such charges and a waiver of all others, the requested pretermination settlement agreement should not be negotiated, whether or not it is contingent upon advance notice. Either of these cases is an appropriate subject for non-binding informal memoranda.

There are other possible arrangements predicated on the payment of certain costs and a waiver of others, which may be reduced to pretermination settlement agreements not contingent upon advance notice. Properly speaking these are not no-charge pretermination settlement agreements, although they do involve the element of waiver of costs just as in the case of a typical no-charge agreement. Each of such situations rests on its own peculiar facts and requires separate legal analysis. Because of the technical legal considerations involved, it is not believed feasible to enter into a discussion of these in this section.

**4. Pretermination Settlement Agreements Determining Some Elements of A Termination Settlement.** Sometimes it will be found impractical to negotiate a pretermination settlement agreement covering all elements of a termination settlement. In such cases, however, it may be possible to reach definite understandings with the contractor upon certain elements which can be made the subjects of pretermination settlement agreements. Part 2, Section II of the JTR describes a number of subjects which may be discussed with contractors and, if understandings are reached, reduced to pretermination settlement agreements. Examples are the disposition to be made of scrap; property to be retained by the contractor; packaging; removal and storage of inventory; general and administrative expense; and profit. Any one or more of the foregoing subjects, or numerous others not mentioned in the JTR, may be reduced to binding pretermination settlement agreements.

Pretermination settlement agreements which deal with some of the elements of a pretermination settlement, but not all will necessarily have to be followed after termination by negotiation between

the parties or unilateral action by the contracting officer so that a determination may be made of the full amount to be paid to the contractor as fair compensation for termination of work under the contract. The pretermination agreements in such cases will state that it is intended thereby to provide only for certain elements of any claim of the contractor for fair compensation.

### **5. Pretermination Settlement Agreements Determining Fair Compensation.**

The type of agreement which will considerably lighten the work burden after termination, particularly in the event of mass terminations, is the one covering all elements of the contractor's claim for fair compensation. In a contract containing the uniform termination article such an agreement may be considered as a supplement defining the amounts to be paid to the contractor as agreed upon under paragraph (c) of the Article. As a consequence, the **uniform termination article should not be eliminated from the contract by the pretermination settlement agreement.**

Both the negotiator and accountant are interested in how the amount to be paid to the contractor is computed under such an agreement. The property disposal specialist is interested in how the prices for property retentions by the contractor are treated. One form of arrangement which can be worked out is illustrated by paragraph 5 of the "Sample of a Pretermination Settlement Agreement—Botany Type" set forth in the Appendix 4. Based upon a "Count and Multiply" method of computing all elements of the contractor's claim for fair compensation, it is utilized in conjunction with a schedule of "predetermined termination allowances" appearing on the last page of the agreement. Under this plan, after the accountant has determined the contractor's costs at various convenient inventory stop-work points in the production cycle, the negotiator works out with the contractor a negotiated unit cost which includes the direct as well as indirect costs and profit of the contractor. This is set up under the column entitled "Unit Cost." The property disposal specialist advises the negotiator as to the fair retention values to be fixed at the agreed inventory stop-work points which are set forth in the schedule under "Retention Offer." The last column entitled "Unit Payment" represents the amount per unit which will be paid to the contractor upon retention by him of the inventory at the specified stage of production.

There are other subjects which should be included in the agreement such as, when and how the contractor is to present an inventory, how subcontractors' claims are to be treated, what common items are to be included in the termination inventory and what elements of cost are to be left open for further negotiation. If the parties cannot agree on the method of computing a few elements of the termination settlement but do agree on all the others, they can provide in their pretermination agreement with respect to such few that the amounts to be paid to the contractor therefor and the retention or other disposition of the inventory represented thereby shall be determined after termination by the uniform termination article. In effect, they are saying that if after termination they cannot agree on these matters by negotiation, the contracting officer will make a unilateral determination as to these elements under the uniform termination article in the same manner as he would if there were no pretermination settlement agreement. They are also in such manner naming in their agreement every element of the termination settlement for which the contractor is to be compensated.

In actual practice, there will be very few pretermination settlement agreements which cover **all** phases of the termination settlement. As was pointed out in paragraph 3, Section III of this Manual, it is not desirable to delay entering into an agreement on one or more points which have been decided, pending decisions on other points which have not been and may never be decided. On the contrary, when decisions on any important points have been reached, an agreement of the

type described in paragraph 4 above, should be prepared and executed. This agreement may be enlarged to include any decisions reached at a later date.

**6. Notice and Instructions After Termination.** Inasmuch as any one or more of the acts and decisions which may be required of the prime contractor by the Government's written notice of termination will be frequently agreed upon in advance by a binding pretermination settlement agreement, it will be necessary to change the form of notice of termination set forth in the JTR and the Instructions to contractor to fit the particular situation. Care should therefore be observed in the preparation of the form of notice of termination to be sent to the contractor to give effect to the terms of the pretermination settlement agreement. The depot Legal Branch can be of assistance in drafting a proper notice and in revising the instructions to the contractor to fit the case.

**7. Agreements After Termination.** Sometimes it is assumed (erroneously) that because a pretermination settlement agreement covering all elements of a settlement is executed, no further settlement agreements will be necessary after termination. It should be noted, however, that every termination settlement made after notice of termination, whether based in whole or part upon a pretermination agreement, must be evidenced by a final settlement agreement if it involves the payment of any money by the Government to the contractor. Although it is legally possible to provide for self-executing releases in a no-charge pretermination settlement agreement and thereby avoid a final settlement agreement after termination, Readjustment Division, Headquarters, ASF, has stated that such practice is not preferred.

**8. Conclusion.** Obviously, it is impossible to cover all the legal ramifications of pretermination settlements in this brief space. However, this section will have more than served its purpose if it facilitates a recognition of the existence of legal problems in particular cases by contract termination personnel.

## VII. APPROVAL OF AGREEMENTS

**1. Approval Necessary.** Prior to execution by the Contracting Officer, all pretermination settlement agreements must be approved by the Depot Settlement Review Board. Those which must be approved by higher authority are described in JTR 227 and QMS 15-2-12. Review by the Depot Property Disposal Board is covered in JTR 227.2.

**2. Request for Approval.** Whenever a proposed pretermination settlement agreement requires the approval of authority higher than Depot, the request for approval should be accompanied by so much of the information listed in JTR 227.4 as is relevant to the particular case. It is of particular importance that there be full compliance with sub-paragraph 9 of JTR 227.4, because it is largely on the basis of the information supplied pursuant to this subparagraph that approval may be given. Failure to furnish adequate information will result in delay and withholding of approval.

**3. Adequacy of Information.** In general, any board or officer whose approval is requested will require information sufficient to prove that the proposed agreement is acceptable from a business standpoint and consistent with law and policy.



A request for the approval of an authority higher than depot should be accompanied by information of the nature hereinafter indicated. Other cases should have so much of the information described below as is necessary under the circumstances.

From a property disposal standpoint, there should be facts and reasons supporting the type of disposition proposed. Full justification for the acceptance of retention offers which are below cost or market should be set forth. Justification may consist of demonstrating the reasonableness of the offers and in showing how the acceptance of the offers advances one or more of the objectives of the Contract Settlement Act. The reasonableness of the offers should be shown by a full statement of all the facts, circumstances and reasoning involved. For further suggestions relative to the establishment of the reasonableness of the retention offers see Part V of this Manual.

To be adequate, the papers should include the accountant's report based upon the examination made by him in accordance with the suggestions contained in Part IV of this Manual.

The papers should contain, as a minimum information sufficient to permit depot personnel to recommend approval of the proposed agreement and to enable higher authority, independently of the conclusions of depot officials, to determine if its approval should be given.

Evidence of the action taken by the Depot Settlement Review Board should be included, and if that Board has disapproved, the approval of the officer who appointed the Board. In cases where approval of the Depot Property Disposal Board is required pursuant to JTR 227.2, evidence of that approval should also appear in the papers.

The papers should include the Contracting Officer's recommendation of approval and his reasons therefor, and copies of the original contract and all modifications.

No approval of informal understandings is necessary beyond that of the individual Contracting Officer responsible for the agreement. However, where it is indicated that the amount of the actual settlement will be sufficient size to require approval of the Depot Settlement Review Board, approval of the understanding by the Board may be obtained prior to its execution. Prior approval by the Settlement Review Board of pretermination settlement agreements and informal understandings does not make approval subsequent to actual termination unnecessary. However, in the case of agreements which are binding on the Government, their binding nature must be recognized by the Board and any higher authorities who may be required to approve the settlement.

The above approvals are required by the JTR as of 20 May 1945. Any changes in approval procedure will be reflected in the revised JTR and QMS.

## VIII. PREPARATION OF FILES

**1. Records to be Maintained.** A pretermination agreement or informal understanding is no different from any other negotiated settlement so far as records are concerned. If the termination is effected, the final settlement file is subject to review by all of the agencies which review normal terminations, and will probably be scrutinized much more closely than the latter. It should be remembered that when a pretermination agreement has actually been applied to close out a contract, the agencies which subsequently review it will have the benefit of hindsight. Some of the decisions made at the time the pretermination agreement was entered into may not appear sound in

the light of circumstances existing at time of termination. For this reason, the circumstances which lead to the decision **at the time it was made** should be clearly set forth.

In other respects, the file should closely resemble that of a normal termination and should be equally complete, including a negotiator's narrative report and all other elements required by the "Termination File Check List and Progress Report" contained in Manual 21-3, "Standard Contract Termination Organization and Procedures" April 1946, in so far as they are applicable to a pretermination agreement. As a minimum, the file should contain all information necessary for approval of the agreement, as outlined in JTR 227 and in Part VII of this Manual.

**2. Location of Files.** Separate files pertaining to pretermination agreements and informal understandings should be maintained in the Contract Termination Branch, so that they will be readily available for reference. Proper cross-references should be maintained so that when termination occurs, the existence of a pretermination agreement or informal understanding will be immediately made known.

## IX. GENERAL INSTRUCTIONS

**1. Renewal Procedure.** A renewal procedure should be worked out so that pretermination settlement agreements that have once been entered into will be continued when the contract itself is renewed. Whether or not the pretermination agreement is drawn as an integral part of the new contract or as an amendment thereto, is unimportant, and will depend entirely upon local conditions. It is very important, however, that the benefits of such agreements not be lost simply because a contract expires. Even though the Government might not enter into another contract for the same item, the contractor will probably produce some other item for the Quartermaster Corps. Once a contractor has been convinced of the value of pretermination settlement agreements, his outstanding Quartermaster contracts should at all times be covered.

**2. Amendments.** Arrangements should be made so that amendments to contracts changing prices, quantities, specifications, or any other important feature of the contract will be made known to the Contract Termination Branch. In this manner any necessary action can be taken to revise the pretermination agreement.

**3. Putting Pretermination Agreements into Effect.** At the time an actual termination is received, the contractors making the item will be listed on the Termination Record Sheet. Before final action is taken to determine particular contracts to be terminated, a review should be made of all existing pretermination agreements and informal understandings. In many instances, it may be possible to apply the "advance notice" provisions of a pretermination agreement within the limits of the military requirements for the items. However, a contractor should never be penalized for having entered into a pretermination agreement, and all other factors should be considered in deciding which contract to cancel.

**4. Authorization to Settle Subcontractor's Claims and Make Partial Payments up to \$10,000.** Where a pretermination agreement is in effect which does not include

payments to subcontractors, arrangements should be made immediately to give authority to the contractor to settle with subcontractors and to make partial payments up to \$10,000 wherever such authority is justified. In this manner, the contractor's actions are more fully outlined prior to termination.

**5. *Agreements Included in Original Contract.*** It will be found that certain pretermination provisions are universally applicable and so obviously beneficial that they are acceptable to all contractors. It is suggested that a procedure which provides a ready means of recognizing such provisions be established to the end that such provisions may eventually be incorporated into the original purchase instrument. Thus, the agreement relative to purchase and the agreement relative to termination may be accomplished in one operation.

**6. *Prompt Processing of Agreements.*** A procedure for the processing of pretermination agreements should be established. As a stimulus to achievement, a reasonable time schedule for the completion of agreements should be prescribed and adhered to. It appears that the sixty-day schedule for terminated cases may serve as a working basis from which a reasonable schedule can be worked out.

## **X. UNIFORM PRETERMINATION AGREEMENTS \* COVERING MANY CONTRACTS FOR SAME ITEM**

### **1. *Custom Tailored Agreements Versus Agreements Obtained in Volume.***

The method generally in use at this time of obtaining pretermination agreements by negotiating separate and distinct agreements with each contractor has two disadvantages which, if eliminated, would greatly facilitate the rapid and extensive coverage of contracts by pretermination agreements.

a. Under present procedures, pretermination agreements are negotiated in a manner which is very similar to that of settling an actual termination. A proposal is submitted by the contractor after his staff has prepared inventories and detailed cost studies. This proposal must then be analyzed by government inventory disposal and accounting personnel. In some instances, field audits of the contractor's records are required. Each final agreement is "custom tailored" on the basis of information accumulated in this manner. Although this method is adequate, it is time consuming.

b. In addition to the time factor, the present method usually requires difficult decisions with respect to the acceptability of retention offers in each separate case. The submission of individual retention offers has resulted in a wide variation of offers for the same items of inventory, presenting the problem of determining what is a fair range for acceptable offers. Not only must the contract-

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\* This Section offers experimental ideas in the development of pretermination settlement agreements and informal understandings. Any Agreement(s) or informal understanding(s) based on this Section, regardless of content or dollar amount involved, must be approved by Readjustment Division, ASF, until further notice.

ing officer assure himself that the Government is receiving fair offers but also that one contractor is not being treated more favorably than another. The situation might well be created where the contractor driving the hardest bargain obtains inventory at prices unfair both to the Government and to other contractors. Such a contractor would receive an unfair advantage in competitive selling of the items in the open market.

**2. Uniform Agreements.** In order to offset these disadvantages, a plan should be developed for offering uniform pretermination agreements to all contractors who are producing the same item for the Government. Such a plan should, wherever possible, avoid the necessity of establishing manufacturing costs for different contractors, thereby reducing the accounting routine to a minimum, and eliminating one of the principal bottlenecks of the present "custom tailoring" process. In addition, the plan adopted should contain a standard payment by the Government in connection with retention of work in process. One of the contractor's principal reasons for driving a hard bargain is thereby removed, namely, the fear that his competitor will be able to retain the same item on better terms.

The success of the uniform retention proposal depends upon the practicability of establishing it. Two ideas have been advanced which may be workable but have not as yet been tried.

a. It has been suggested that the Government establish a uniform cash payment per item to be paid to the contractor for his work in process on the count and multiply basis. This payment would be established by conducting a survey of the market, studying manufacturers' cost records as disclosed in procurement cost studies, and by the exercise of good judgment. It is believed that the factor of uniformity would more than offset a small margin of error which would necessarily exist in any method of determining the proper payment. This method would be satisfactory where the variation of costs between the different manufacturers is small.

b. Where the cost range between manufacturers is wide, it is suggested that a more suitable method might be to use a percentage figure rather than a flat cash offer. The payment might be expressed as a certain percentage of the contract price of the finished item, using one overall figure for all work in process regardless of stage of completion.

**3. Method of Obtaining Agreements.** Once the uniform proposal for a particular class of contracts has been decided upon a pretermination agreement embodying it should be prepared. In view of its possible widespread use, it is advisable that any uniform agreement be approved in advance by the Settlement Review Board, the Property Disposal Board, where desirable, and the Office of The Quartermaster General even though the approval of that Office is not otherwise required. The matter of selling a uniform agreement should be relatively simple compared to selling individual agreements. In some cases it may be accomplished simply by mailing the agreement to the contractor together with a prospectus explaining it and its advantages to the contractor, the Government and the national economy.

**4. Combination Agreements.** In developing uniform agreements, it is important to remember that complete agreements covering all termination problems are not necessary. If one or more important decisions can be made on an industry-wide basis, agreements can be drawn on these points leaving other matters for negotiation at time of termination. If certain contractors desire broader pretermination settlement agreements, the industry-wide decisions may be used as a

basis and other decisions reached by individual negotiation with the interested contractors. In this manner all of the advantages of uniform standard agreements are realized and at the same time the program remains sufficiently flexible to take advantage of further opportunities which may be present in individual cases.

**5. Modifications of Plan May Be Developed.** If a depot has no important items for which large numbers of contracts are outstanding, but has many similar items procured under relatively few contracts, a pattern might be worked out which would cover all contracts for similar items. The plan outlined in this section might be used with slight modification in such instances.

**6. Conclusion.** A program of uniform pretermination agreements consummated in volume offers an opportunity for the use of initiative and imagination on the part of Contract Termination Branches. Agreements need not follow the lines suggested herein. Any workable variation may be adopted which increases the number of satisfactory agreements which may be consummated within a given length of time. It is recognized that agreements cannot be standardized to fit every situation. Certain cases will always require "custom tailored" agreements. However, the possibilities of using a standard agreement to cover important items should be fully explored.

Frequently the intended wide use of a proposed uniform agreement will involve a matter of policy. Whenever there is any question as to whether the proposed uniform agreement is in contravention to existing policy or the Contract Settlement Act, the JTR, the QMS or any other directives or regulations, that question should be presented to the Office of the Quartermaster General, before the proposed uniform agreement is executed.



# Appendix

1. **SAMPLE WORK SHEET FOR ACCOUNTING DATA**
2. **SAMPLE OF A NO-CHARGE AGREEMENT**
3. **SAMPLE OF AN INFORMAL UNDERSTANDING**
4. **SAMPLE OF A PRETERMINATION SETTLEMENT AGREEMENT—  
BOTANY TYPE**
5. **STOP-WORK STAGES FOR CLEARING MACHINERY UNDER  
JTR 241.3—WORSTED AND WOOLEN MANUFACTURING  
INDUSTRIES—WITH LETTER OF TRANSMITTAL AND  
GENERAL INSTRUCTIONS**





# Appendix

1. SAMPLE WORK SHEET FOR ACCOUNTING DATA
2. SAMPLE OF A NO-CURE AGREEMENT
3. SAMPLE OF AN INFORMAL UNDERSTANDING
4. SAMPLE OF A PRETERMINATION SETTLEMENT AGREEMENT  
BOTANY TYPE
5. STOP-WORK STAGES FOR CLEARING MACHINERY UNDER  
JTR 2413—WORSTED AND WOOLEN MANUFACTURING  
INDUSTRIES—WITH LETTER OF TRANSMITTAL AND  
GENERAL INSTRUCTIONS

# SUMMARY OF COSTS

Operation	Item	Material Cost	Direct Labor	Factory Overhead (1)
Cutting Grain Cowhide	Leather	\$ .3709	\$ .0367	\$ .0088
Cutting Side Splits	Leather	.1640	.0183	.0044
Cutting Davey Tips	(Leather included in Grain Cowhide Cost)		.0067	.0016
Fourchettes and Welts			.0174	.0042
Thumbing	Leather Welt	.0097	.0165	.0040
Davey Tips			.0165	.0040
Thumb Straps			.0143	.0034
Side Seams	(5) Thread	.0108	.0126	.0030
Turning			.0042	.0010
Closing			.0376	.0088
Binding	Bias Binding	.0031	.0054	.0013
Inspection			.0157	.0038
Forming			.0183	.0044
Packing	Packing Materials	.0056	(6). —	—
		\$ .5641	\$ .2202	\$ .052

# APPENDIX 1.

## PER PAIR OF GLOVES

Total Factory Cost	General & Admin. Expense	Rejects	Total Cost	Cumulative Cost	Cumulative Cost Plus Profit at Indicated Rate
	(2)	(3)			(4)
\$ .4164	\$ .0464	\$ .0006	\$ .4634	\$ .4634	\$ .4991
.1867	.0208	.0003	.2078	.6712	.7229
			.0092	.6804	.7328
.0083	.0009		.0240	.7044	.7586
.0216	.0024		.0337	.7381	.7949
.0302	.0034	.0001	.0228	.7609	.8195
.0205	.0023		.0197	.7806	.8407
.0177	.0020		.0293	.8099	.8723
.0264	.0029		.0058	.8157	.8785
.0052	.0006		.0517	.8674	.9342
.0464	.0052	.0001	.0109	.8783	.9459
.0098	.0011		.0217	.9000	.9693
.0195	.0022		.0252	.9252	.9964
.0227	.0025		.0062	.9314	1.0030
.0056	.0006				
\$ .8370	\$ .0933	\$ .0011	\$ .9314		

- (1) 23.95 % of Direct Labor.
- (2) 11.15 % of Total Factory Cost.
- (3) Distributed on percentage of Factory Cost at each stage of production.  
(Amount so infinite, apportionment does not show on most stages.)
- (4) Profit computed at indicated rate of 7.7 % as determined on Contract No.
- (5) Cost of thread inserted at this operation, at which point about 50 % of the thread has been consumed. This item is too small to distribute to the various operations.
- (6) Packing labor is included in Factory Overhead as Indirect Labor.

# NO CHARGE AGREEMENT

THIS SUPPLEMENTAL AGREEMENT entered into pursuant to the Contract Settlement Act of 1944, (hereinafter called "The Act"), as of this ..... day ....., 1945, by the UNITED STATES OF AMERICA (hereinafter called "the Government") represented by the Contracting Officer executing this contract and ..... (hereinafter called "the contractor").

WITNESSETH THAT:

WHEREAS, the contractor and the Government have entered into Contract No. .... under date of ..... 1945 which, together with any and all amendments, changes, and supplements thereto, is hereinafter referred to as "the Contract"; and

WHEREAS, the contract provides that the performance of work thereunder may at the convenience or option of the Government be terminated by the Government in whole, or from time to time in part, whenever any such termination is determined to be for the best interests of the Government, and that the contractor and Contracting Officer may agree upon the whole or any part of the amount or amounts to be paid to the contractor by reason of such termination; and

WHEREAS, the contractor has represented to the Government that if it is given the advance notice of termination hereinafter described, it will have no claim for fair compensation against the Government in the event of termination; and

WHEREAS, the provisions of this supplemental agreement will facilitate plant clearance, reconversion of the contractor's plant from war to civilian production as war conditions permit, the efficient use of materials, manpower and facilities for war and civilian purposes and will otherwise promote the objectives of this Act.

NOW THEREFORE, the parties hereto do mutually agree as follows:

1. If the Government gives written notice of termination to the contractor pursuant to Article # ..... (insert here the number of the Article entitled "Termination at the Option of the Government") of the contract not later than ..... days before the effective date of termination, the contractor waives unconditionally, without any further act or writing on his part, any claim or demand for fair compensation against the Government by reason of the termination of the contract. The notice shall be regarded as given (1) on the date when it is deposited in the United States registered mails addressed to the contractor at ..... (insert here the contractor's address) or at such other address made known to the contracting officer before the mailing or dispatch of the notice of termination by a writing delivered to him by the contractor; or (2) on the date when it is delivered to a commercial telegraph company for dispatch to the contractor addressed as aforesaid. The provisions of this paragraph shall apply to a termination in whole or to one or more terminations in part.

2. After each of said terminations, the parties agree to execute a supplemental agreement containing such releases as are deemed necessary or desirable by the Contracting Officer. The waiver in paragraph 1 above shall not be construed as being conditioned upon performance by the parties of the covenants contained in this paragraph.

3. All terms herein which are defined in the Act or in the Joint Termination Regulation shall be construed in accordance with such definitions unless the context herein clearly requires otherwise.

4. Except to the extent modified herein, all the terms and conditions of the contract, including without limitation Article ..... (insert number of Uniform Termination Article) thereof, shall remain unmodified and in full force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written.

# INFORMAL UNDERSTANDING

....., (referred to as "the contractor") has entered into Contract No. .... dated ....., with THE UNITED STATES OF AMERICA (referred to as "the Government"), which contains an Article entitled "Termination at the Option of the Government." Under such Article, the authority is given to the Government at its option at any time to terminate work under the contract in whole, or from time to time in part, and it is provided that the contractor and the contracting officer may agree upon any amount or amounts to be paid to the contractor by reason of such termination.

In advance of any such termination, the contractor and the Government (represented by the officer signing this memorandum) have attempted to reach certain tentative decisions on the subjects hereinafter set forth which would otherwise require action after termination. As a result of their discussions, the following tentative arrangements have been made between the contractor and the Government:

(Insert here the tentative arrangements in simple, informal language. The following is an example:

The contractor will retain all V3C cartons allocable to the terminated portion of the contract at 10¢ per box and the Government will pay to the contractor the difference between 10¢ and the contractor's cost for such boxes. This does not apply to such boxes as are ordered from suppliers but not delivered to the contractor not later than the effective date of termination. The contractor will waive all other claims he may have against the Government and sign an agreement releasing the Government.)

After termination at the option of the Government (if such termination occurs), the foregoing tentative arrangements will be reviewed by the contractor and the contracting officer. It is clearly understood that this informal memorandum is not binding in whole or part and is subject to change by either party at any time or times. It is intended to be binding only if the parties hereto incorporate it in Contract No. .... by a supplemental agreement executed by them.

Dated at ....., 1 April 1945.

.....  
(Contractor)

THE UNITED STATES OF AMERICA

By .....  
(Title)

# **SAMPLE OF A PRETERMINATION AGREEMENT**

## **—BOTANY TYPE**

THIS SUPPLEMENTAL AGREEMENT entered into pursuant to the Contract Settlement Act of 1944, (hereinafter called "the Act"), as of this ..... day of ....., 1945, by the UNITED STATES OF AMERICA (hereinafter called "the Government") represented by the Contracting Officer executing this contract and ..... (hereinafter called "the Contractor").

WITNESSETH THAT:

WHEREAS, the Contractor and the Government have entered into Contract No. .... under date of ..... 1945 which, together with any and all amendments, changes, and supplements thereto, is hereinafter referred to as "the Contract"; and

WHEREAS, the Contract provides that the performance of work thereunder may at the convenience or option of the Government be terminated by the Government in whole, or from time to time in part, whenever any such termination is determined to be for the best interests of the Government, and that the Contractor and Contracting Officer may agree upon the whole or any part of the amount or amounts to be paid to the Contractor by reason of such termination; and

WHEREAS, it is deemed equitable and appropriate and mutually advantageous to the parties to determine by negotiation and agree in advance of termination upon certain methods and standards for determining fair compensation in the event of termination of work under the Contract, in whole or in part, at the convenience or option of the Government; and

WHEREAS, the available data permits a reasonable forecast, consistent with sound commercial standards, of the factors involved in determining what will be fair compensation for termination of work under the contract in whole or part; and

WHEREAS, the determination of fair compensation according to the methods, standards or bases herein agreed upon will substantially expedite the settlement of any termination of work under this Contract, and will facilitate plant clearance, reconversion of the Contractor's plant from war to civilian production as war conditions permit, the efficient use of materials, manpower and facilities for war and civilian purposes and will otherwise promote the objectives of the Act.

NOW THEREFORE, the parties hereto do mutually agree as follows:

1. The provisions of this Supplemental Agreement shall apply in the event that performance of work under this Contract is terminated by the Government at its option or convenience in whole, or from time to time in part, in accordance with the Article in the Contract entitled "Termination at the Option of the Government," hereinafter referred to as the "Termination Article."

2. The Contractor shall file with and in form satisfactory to the Contracting Officer its inventory of the fabricated or unfabricated parts, work-in-process, completed work, supplies and other materials produced as a part of, or acquired in respect of the performance of, the work terminated in the Notice of Termination, for which payment is sought by it under this agreement, and the plans, drawings, information and other property which (except as otherwise stated in this agreement) if the Contract had been completed, would be required to be furnished to the Government. If such inventory lists, or any part thereof, are not returned to the Contractor within ..... days of their receipt with the Contracting Officer's objections as to form indicated, they will be regarded as sat-



isfactory in form to the Contracting Officer. The Government reserves the right to make a complete or selective check of any inventory at any time prior to the disposition of any such items by the Contractor but in no event shall any inventory be disposed of by the Contractor within ..... days of the effective date of termination without the consent of the Contracting Officer. The filing of such inventory, or the filing or failure to file objections as to form thereto, shall not be regarded as a waiver of the Government's right to exclude any items or class of items of inventory listed by the Contractor from the termination settlement in accordance with the Contract and all modifications thereto.

3. The Contractor shall retain for its own use and benefit all of its own fabricated and unfabricated parts, components, work in process, supplies and other materials allocated to the terminated portion of the Contract, except as otherwise provided herein.

4. The Contractor may retain for its own use and benefit and at no cost to the Government any finished cloth on hand in its plant or plants at the time of termination, allocable to the terminated portion of the Contract, in excess of the quantity directed by the Government to be delivered to it. If not so retained, or if required by the Government, the Contractor shall transfer title and deliver such cloth to the Government. If the Government determines that there is a military need therefor, it shall have the right to require the completion of any unfinished work and the delivery to it of the end items produced therefrom at the contract price.\* As used herein, "finished cloth" means cloth upon which nothing further remains to be done under the specifications of the contract and which complies fully with such specifications.

5. Upon termination of work under the contract pursuant to the Termination Article, the Government will pay to the Contractor the following amounts:

a. For finished cloth delivered to and accepted by the Government and not theretofore paid for, a sum equivalent to the aggregate price for such articles computed in accordance with the price or prices specified in the Contract, except that for such cloth representing an unreasonable anticipation of the Contractor's production schedules, payment shall be based upon the Contractor's cost rather than at the contract price.

b. For all materials, supplies, components, work in process and products of any kind retained by the Contractor (except completed end items described in subparagraph (a) above), an amount equal to the sum of the amounts arrived at by multiplying, as of the effective date of the notice of termination, the quantities of such inventory allocable to the terminated portion of the Contract in each of the respective stages of production described in the attached schedule by the applicable unit payment as set forth in said schedule;

c. The cost of settling and paying claims arising out of the termination of work under subcontracts or orders as provided in paragraph (b) (5) of the Termination Article, exclusive of the amounts paid or payable on account of supplies or materials delivered or services furnished by the subcontractor prior to the effective date of the notice of termination of work under this Contract; and

d. The reasonable cost incidental to termination of work under the Contract, including expenses incidental to the determination of the amount due to the Contractor as the result of the termination of work under this Contract.

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\* This sentence may be omitted and the same result accomplished (if a military requirement for the finished cloth exists at termination) by excluding such work from the terminated portion of the contract by the notice of termination.

6. The Contractor warrants and represents to the Government that the sums payable under this agreement, except for that provided for in paragraph 5c, do not include, directly or indirectly, any reserve for the payment of claims of subcontractors allocable to the terminated portion of the Contract or its costs, if any, of settling such claims. The Contractor further agrees to expedite the processing of claims of subcontractors arising out of the termination of work under the Contract so that subcontractors may be paid their termination charges and clear their plants for other production as quickly as possible.

7. The gross amount of the settlement under this agreement, before deducting the amounts for inventory to be retained by the Contractor and exclusive of any sum payable for post-termination expenses, shall not exceed the total contract price, minus payments otherwise made or to be made under the Contract.

8. The Contractor warrants and represents that for the purposes of this agreement, it has not included in its own costs any amounts for loss on special facilities, as defined in paragraph 1 (f), Statement of Principles for Determination of Costs upon Termination of Government Fixed Price Supply Contracts in its amended form as set forth in Regulation No. 5 of the Office of Contract Settlement dated September 30, 1944.\*

9. This Supplemental Agreement sets forth all of the elements of any claim of the Contractor for fair compensation in the event of termination in whole or in part under the Contract. The sum computed in accordance with paragraph 5 hereof represents the total amount due to the Contractor in full and complete settlement of his claim for fair compensation for the termination in whole or part of this Contract and constitutes fair compensation within the meaning of the Act. The obligation of the Government to make any payments under this agreement is subject to the provisions of paragraph (e) of the Termination Article.

10. All terms herein which are defined in the Act or in the Joint Termination Regulation shall be construed in accordance with such definitions unless the context herein clearly requires otherwise. For the purposes of paragraphs 5b, 5c and 5d, the amounts of the payment to be made by the Government to the Contractor shall be determined in accordance with the Statement of Principles for Determination of Costs upon Termination of Government Fixed Price Supply Contracts in its amended form as set forth in Regulation No. 5 of the Office of Contract Settlement dated September 30, 1944, and the Termination Cost Memoranda of said Office of Contract Settlement interpreting such principles in effect as of the date of this Supplemental Agreement to the extent that they are applicable, unless the context herein clearly requires otherwise.

11. The schedule of predetermined termination allowances attached hereto is incorporated in and made part of this Supplemental Agreement.

12. Except to the extent modified herein, all the terms and conditions of the Contract, including without limitation the Termination Article thereof, shall remain unmodified and in full force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written.

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\* Under present regulations, if the agreement provides for the payment of any amount for loss on special facilities as defined in the paragraph above, the agreement must be submitted for approval of Headquarters, ASF.

# SCHEDULE OF PREDETERMINED TERMINATION ALLOWANCES

<b>A</b> Inventory Stages	<b>B</b> Unit	<b>C</b> Unit Cost	<b>D</b> Unit Retention Offer	<b>E</b> Unit Payment (Col. C minus Col. D)



**ARMY SERVICE FORCES  
PHILADELPHIA QUARTERMASTER DEPOT**  
2800 SOUTH 20TH STREET  
PHILADELPHIA 45, PA.



IN REPLY, PLEASE ADDRESS  
COMMANDING GENERAL  
ATTENTION:

Procurement DIVISION  
Contr. Term. Br. 4-207325X

IN REPLY, REFER TO

SPQDP 164 (Terminations) PCT

14 April 1945

Gentlemen:

Inclosed herewith are Stop Work Stages for Clearing Machinery under JTR 241.3 as these affect your mill, and a copy of Instructions to Contractors regarding the application of such Stop Work Stages.

The Philadelphia Quartermaster Depot has recognized for a long time, as have the woolen and worsted textile industries, that a uniform policy of Stop Work Stages was essential to efficient reconversion from war to civilian production. The Stop Work Stages Policy is the result of long and earnest study by the Quartermaster Corps, assisted by wool manufacturers, and is based upon attaining the objective of most effectively, speedily, and safely clearing machinery in the event of a termination, and thus placing the contractor in a position to undertake reconversion with a minimum of stoppage in production.

The attached Instructions explain exactly how these Stop Work Stages are to be applied. If, for some reason you feel that these Stop Work Stages are not applicable to your mill without considerable hardship, injury to your machines, or financial loss, or if you feel that the Stop Work Stages do not apply to your mill because of difference in method of production, then it is requested that you call this to the attention of Major T. J. Godfrey, Contract Termination Branch, Philadelphia Quartermaster Depot, in order that any differences can be worked out with you on an individual basis.

You will note that some of the Instructions regarding the various Stop Work Stages require you to package the material at the end of that stage. In this connection, this Depot is now preparing and will issue to you in the very near future, Packaging Instructions relative to this matter.

It must be emphasized that these Stop Work Points are applicable only in the event your contract is terminated and you do not have a pretermination settlement agreement with this Depot covering your contracts. In the event you have a pretermination settlement agreement, you will inventory your materials at the points set forth therein. In this connection, this Depot is now preparing some material on Inventory Points applicable to pretermination settlement agreements. This material will be released to you as soon as it is completed. It is requested, where appropriate, that you instruct your subcontractors relative to the Stop Work Stages Policy.

Please sign and return the acknowledgment of receipt of the Stop Work Stages and Instructions.

Nothing stated above is intended to convey any belief that the War Department is now anticipating any mass terminations of war contracts. This Stop Work Stages Policy is simply one element of pre-planning. Maintaining production of urgently required war materials is still this Country's first concern.

Very truly yours,

H. C. KLIBER  
Colonel, QMC  
Director of Procurement

- 3 Incls.  
Incl #1 - Stop Work Stages (in trip.)  
Incl #2 - Instructions to Contractors  
Incl #3 - Acknowledgment

**STOP WORK STAGES FOR CLEARING MACHINERY UNDER JTR241.3  
WORSTED AND WOOLEN MANUFACTURING INDUSTRIES**

WORSTED SYSTEM (Bradford & French)			WOOLEN SYSTEM		
STAGE NO.	STOP WORK STAGES	INSTRUCTIONS	STAGE NO.	STOP WORK STAGES	INSTRUCTIONS
1	Raw Material	a. Unopened bales not to be opened. b. Open bales on which no grading or sorting has been done to be rebaled. c. Raw wool on which grading or sorting has been started to be completely sorted and graded, and rebaled and weighed.	1	Raw Material	a. Unopened bales not to be opened b. Open bales on which no grading or sorting has been done to be rebaled. c. Raw wool on which grading or sorting has been started to be completely sorted and graded, and rebaled and weighed.
2	Tops (Undyed)	Wool and/or other fibers that actually have started in the process of top making (dusting, scouring, carding, backwashing, gilling, combing, gilling, finishing) shall be completed into tops (undyed).	2	Stock in Preparatory Processes	Wool and/or other fibers that actually have started in the preparatory processes such as scouring, carbonizing, and neutralizing, shall be completed.
3	Tops (Dyed)	a. Tops that have been wound on spools or forms or inserted on spindles but not yet started in the process of dyeing will be returned to the original undyed "top" state. b. Tops to which dye has actually been applied shall be completed into dyed tops. c. Colored and/or undyed tops shall not be blended for shade.	3	Picked Wool	Rags and/or other stock in the process of being garnetted or picked shall be completed into garnetted or picked stock.
4	Recombed Tops (Undyed and dyed)	Tops that actually have started in the process of being recombed shall be completed into recombed tops.	4	Wool, Dyed	Wool and/or other stock to which dye has actually been applied shall be dyed and dried. Wool and/or other stock to which dye has not been applied shall be sacked and weighed.
5	Yarn	Tops (undyed or dyed) that actually have started in the process of being made into yarn, shall be completed into single ply. The machinery and bobbins may be cleared by winding the yarn onto tubes, cones, or into skeins.	5	Blending and Emulsifying	No further wool will be blended and oiled; wool actually being blended and oiled will be completed.
6	Yarn (Plied)	Yarn that actually has started in the process of being doubled or twisted shall be completed into plied yarn. The machinery and bobbins may be cleared by winding the yarn onto tubes, cones, or into skeins.	6	Yarn	Wool that actually has started in the process of being made into yarn, shall be completed into single ply. The machinery and bobbins may be cleared by winding the yarn onto tubes, cones, or into skeins.
7	Warp Yarns in Preparation for Weaving	Work on yarn that actually has started in the preparation for weaving shall be stopped at the following stages: a. <u>Jack Spools</u> or <u>Dresser Spools</u> that have been started, may be completely wound. b. <u>Warper Beams</u> that have been started, may be completely wound. c. <u>Loom Beams</u> in the process of being slashed or dressed, may be completely slashed or dressed.	7	Yarn (Plied)	Yarn that actually has started in the process of being doubled or twisted shall be completed into plied yarn. The machinery and bobbins may be cleared by winding the yarn onto tubes, cones, or into skeins.
8	Cloth (Unfinished)	Loom Beams, on looms, actually in the process of weaving may continue in process until the warp is woven out and the loom is cleared.	8	Warp Yarns in Preparation for Weaving	Work on yarn that actually has started in the preparation for weaving shall be stopped at the following stages: a. <u>Jack Spools</u> or <u>Dresser Spools</u> that have been started, may be completely wound. b. <u>Warper Beams</u> that have been started, may be completely wound. c. <u>Loom Beams</u> in the process of being slashed or dressed, may be completely slashed or dressed.
9	Cloth (Burled and mended)	A piece of cloth that actually has started in the process of burling and mending shall continue in process until the piece has been completely mended.	9	Cloth (Unfinished)	Loom Beams, on looms, actually in the process of weaving may continue in process until the warp is woven out and the loom is cleared.
10	Cloth (Finished)	Cloth that actually has started in the first process of finishing, after burling and mending, shall be completed into finished cloth <u>except</u> that work on cloth that is to be piece dyed shall be stopped at the completion of the operation immediately preceding dyeing and the cloth shall be dried. Cloth that actually has entered the dye kettle in the process of piece dyeing, shall be dyed and completed into finished cloth.	10	Cloth (Burled and mended)	A piece of cloth that actually has started in the process of burling and mending shall continue in process until the piece has been completely mended.
			11	Cloth (Finished)	Cloth that actually has started in the first process of finishing, after burling and mending, shall be completed into finished cloth, <u>except</u> that work on cloth that is to be piece dyed shall be stopped at the completion of the operation immediately preceding dyeing and the cloth shall be dried. Cloth that actually has entered the dye kettle in the process of piece dyeing, shall be dyed and completed into finished cloth.

15 March 45

SCHEDULE A

Office of The Quartermaster General

# GENERAL INSTRUCTIONS

regarding

## APPLICATION OF STOP WORK STAGES FOR CLEARING MACHINERY

in the

### WOOLEN AND WORSTED MANUFACTURING INDUSTRIES

1. Upon receipt of a Notice of Termination of contracts for Woolens or Worsteds, all prime contractors **and subcontractors** will be required to stop work as set forth in the attached schedule of Stop Work Stages, unless otherwise specifically directed by the Contracting Officer.

2. Upon completion to the stages indicated, all material will have to be weighed or measured and packaged. If the contractor intends to make retention offers for all or any part of the termination inventory, packaging may be postponed until disposition is determined. Disposition will be in accordance with the Joint Termination Regulation. The inventory quantities, as determined by the weighing and measuring above, will be the basis for contractor's termination claim.

3. The Stop Work Stages, as listed on the attached schedule, will cover the operations of a fully integrated mill. Where a prime contractor is not fully integrated, his subcontractors may be performing some of the operations for him. In such case, the subcontractor will be governed by the Stop Work Stages applicable to his operations. It is the duty of the prime contractor to furnish copies of the Stop Work Stages and to notify all of his subcontractors that they will be bound by the Stop Work Stages applicable to their operations. Furthermore, each such subcontractor, in turn, is required to notify his subcontractors of the applicability of these Stop Work Stages to their operations.

4. No material that has reached any of the established Stop Work Stages shall be put into process beyond that stage except that in order to weave out warps on looms (Stop Work Stage #8, Worsted System and/or Stop Work Stage #9, Woolen System) it may be necessary to continue making filling yarns.

5. Where cotton sliver is required in the production of a fabric, as for example, 10.5 Oz. Flannel Shirting, the prime contractor must inform his cotton subcontractor to stop work (in order to clear machinery) in accordance with the following instructions:

- a. Unopened cotton shall not be opened.
- b. All open cotton and cotton in process in openers shall be continued thru openers, and then packaged and weighed.
- c. All cotton actually in process of being dyed shall be completed, dried, packaged and weighed.
- d. All dyed cotton in process in pickers (or in form of picker laps), or on cards (or in form of card sliver), shall be completed into sliver, packaged and weighed.







UNIVERSITY OF MICHIGAN



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